

Embargoed until 0001, Monday 8th February 2021

Royal Bank of Scotland PMI®

Stricter lockdown measures push Scottish private sector into steep downturn during January

- **Business activity and new work drop at quickest rates since last May**
- **Job cuts continue into 2021 amid rapid fall in backlogs**
- **Sentiment climbs to near-seven year high as vaccine rollout continues**

The Scottish private sector sunk deeper into a downturn during the opening month of 2021, as lockdown measures stifled client demand and led some businesses to close temporarily, according to the latest Royal Bank of Scotland PMI®. The seasonally adjusted headline Royal Bank of Scotland Business Activity Index - a measure of combined manufacturing and service sector output - posted 33.3 in January, down from 47.3 in December, to signal a rapid drop in private sector output. Moreover, excluding the March to May period of last year, the latest reading was the lowest on record (since 1998). New work fell at a similarly sharp pace, with the decline also the most marked for eight months. As a result, companies made further cuts to staff numbers.

Despite the challenging conditions, sentiment improved during January, with business confidence the highest since early-2014 on the back of the ongoing vaccine rollout, as well as hopes of looser restrictions and a timely economic recovery.

A fifth straight monthly reduction in inflows of new work was recorded during January. Respondents attributed the latest drop in new business to stricter COVID-19 related measures, which stymied client demand. Excluding the March to May period during the first lockdown last year, the rate of contraction was the quickest on record.

At the sector level, the fall was broad based, with services registering much the steeper rate of decline. Scotland also registered the quickest drop in new work across the 12 monitored UK areas.

Scotland's private sector firms recorded the strongest level of confidence with regards to activity over the next 12 months since April 2014 during the opening month of the year. Despite the ongoing downturn, companies remained optimistic

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on the back of the vaccine rollout and amid hopes of looser restrictions and a solid economic recovery, according to anecdotal evidence.

Both manufacturers and service providers registered brighter outlooks during January.

Amid reports of redundancies, layoffs and use of the government furlough scheme, private sector employment in Scotland declined again during January. The rate of job shedding was the slowest since February 2020, the first month in the current sequence, but still sharp overall.

Scottish service providers again reported more widespread job cuts than manufacturers.

As has been the case throughout much of the past eight years, private sector firms in Scotland recorded a fall in the level of outstanding business during January.

According to panellists, weak sales had allowed them to direct resources to unfulfilled orders. Moreover, the rate of backlog depletion was the most marked since last June, and the quickest recorded across the 12 monitored UK areas in January.

January data highlighted another upturn in cost burdens facing Scottish companies, extending the current sequence of higher input prices to eight months. According to respondents, the latest rise was driven by greater raw material, fuel and transport costs, as well as higher wage bills and additional COVID-19 related expenditure. Although still sharp, the rate of inflation eased from December. Scotland registered the second-slowest increase in costs across the 12 monitored UK areas, ahead of London.

In response to greater input costs, Scottish private sector firms increased their average charges for the third straight month in January. The rate of output price inflation was unchanged from December and moderate overall.

Each of the two monitored sectors saw an upturn in charges during January. The rate of inflation was noticeably quicker at manufacturers.

Scotland Business Activity Index

sa, >50 = growth since previous month



Source: Royal Bank of Scotland, IHS Markit.

COMMENT

Malcolm Buchanan, Chair, Scotland Board, Royal Bank of Scotland, commented:

“Stricter lockdown measures took a toll on the Scottish private sector during January, with the downturn worsening amid steep drops in both activity and new business. The falls remained slower than at the height of the first lockdown last spring, perhaps reflective of companies adapting to restrictions, but were still severe.”

“Positive news again came from business confidence, which was the strongest since April 2014 amid hopes of an economic recovery once restrictions are lifted. Conditions will remain very challenging in the meantime, but there is a light at the end of the tunnel for Scotland's economy as the vaccine rollout progresses and measures are loosened.”

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Notes to Editors

Methodology

The Royal Bank of Scotland PMI[®] is compiled by IHS Markit from responses to questionnaires sent to a panel of around 500 manufacturers and service providers. The panel is stratified by detailed sector and company workforce size, based on contributions to GDP.

Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey variable, for the manufacturing and services sectors. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. The indices vary between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease. The indices are then seasonally adjusted. Comparable manufacturing and services indices are then weighted together to form a composite index, with the weights based on official value added data.

The headline figure is the Business Activity Index. This is a composite index calculated by weighting together the Manufacturing Output Index and the Services Business Activity Index. The Scotland Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the 'Scotland PMI', but is not comparable with the headline UK Manufacturing PMI figure.

Underlying survey data are not revised after publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

The survey data for January were collected 12–27 January 2021.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

About PMI

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